

DEPARTMENT OF TAXATION

2001 Fiscal Impact Statement

1. **Patron** Rollison

3. **Committee** House Finance

4. **Title** Retail Sales and Use Tax: Allow Certain
Localities to Increase State Sales and Use
Tax

2. **Bill Number** HB 2725

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would authorize the localities within the Northern Virginia Planning District to impose an additional state retail sales and use tax of ½% within all cities or counties located in the Northern Virginia Planning District. The tax increase authorized under this bill would be imposed only if approved by a majority vote in a joint referendum of all cities and counties located the Northern Virginia Planning District.

The additional ½% state sales and use tax increase would not apply to food sold for human consumption. The additional ½% state sales and use tax increase would apply to items sold through vending machines.

The revenues generated by the tax imposed under this bill would be deposited in the Northern Virginia Transportation District Fund to fund transportation projects in the Northern Virginia Planning District.

The tax increase authorized by this bill would be effective January 1, 2002, contingent upon approval of a joint referendum by a majority of voters on November 6, 2001.

This bill would also increase the maximum aggregate principal amount of bonds issued by the Commonwealth Transportation Board from \$471.2 million to \$2.65 billion.

This Fiscal Impact Statement addresses the state retail sales and use tax increase only.

6. Fiscal Impact Estimates are: Tentative. (See Line 8).

6a. Expenditure Impact:

| <i>Fiscal Year</i> | <i>Dollars</i> | <i>Fund</i> |
|-------------------------------|-----------------------|--------------------|
| 2001-02 | \$58,400 | GF |
| 2002-03 | \$41,300 | GF |

*** These amounts do not include systems costs (see Line 8).**

7. Budget amendment necessary: Yes.

Item 279, Department of Taxation.

8. Fiscal implications:

Administration

While this bill does have costs associated with systems development, these cannot be ascertained at this time. The cost for implementing a **single** piece of legislation cannot be calculated precisely due to economies of scale. The actual cost to implement **all** legislation enacted during a given session will more than likely be less than the sum of the costs attributed to individual bills. Further, the ability to accurately predict costs is complicated because TAX is replacing its current database system. As a result, legislative changes may need to be made to both the current and the future system, depending on the effective date. Therefore, TAX is not providing specific systems costs for this bill, but will calculate the total for all tax bills once they have been acted upon favorably in both houses and prior to the conference committee report.

The department would incur other administrative costs of \$58,400 for fiscal year 2002 and \$41,300 for fiscal year 2003 and beyond to implement this bill.

Revenue

The amount of additional local revenue, if any, resulting from the passage of this bill is unknown. The magnitude depends on whether voters in Northern Virginia Planning District approve the referendum vote in the November 6, 2001 election. If the referendum is approved by a majority of those voting, revenue to the Northern Virginia Transportation District Fund is estimated to increase by \$51.8 million in fiscal year 2002, and by \$132.4 million in fiscal year 2003.

The preceding estimates should be regarded as **very preliminary** because there is no available data on the distribution of food sales taxed at the reduced rate by the localities, and the estimates herein are based on statewide figures.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Treasury
Department of Accounts
Localities in the Northern Virginia Planning District

10. Technical amendment necessary: Yes.

To correct a reference in the fifth enactment clause, which refers to the localities and referendum question in the third enactment clause, the following technical amendments are necessary:

Page 12, Line 646, after: described in the
Strike: second
Insert: third

Page 13, Line 649, after: specified in the
Strike: second
Insert: third

11. Other comments:

Generally

All localities in the Commonwealth currently impose a 1% local sales and use tax, which is collected and remitted along with the 3½% state retail sales and use tax. This bill would authorize the localities within the Northern Virginia Planning District to impose an additional ½% state sales and use tax. This would increase the total state and local general sales and use tax rate within the Northern Virginia Planning District to 5%.

The Northern Virginia Planning District consists of the counties of Arlington, Fairfax, Loudoun, and Prince William and the cities of Alexandria, Fairfax, Falls Church, Manassas and Manassas Park.

The ½% state tax increase authorized by this bill is applicable to both the state sales tax and the state use tax. This means that items of tangible personal property purchased in jurisdictions outside the localities that comprise the Northern Virginia Planning District, and brought into the district for use or consumption by the purchaser, will be subject to the additional ½% state use tax increase. The use tax is applicable to businesses as well as individuals.

Sales of Food for Human Consumption

This bill provides that the ½% state sales and use tax increase would not be applicable to food purchased for human consumption. Therefore, this bill would not affect the Food Tax Reduction Program.

Sales Through Vending Machines

In situations where the collection of the tax on sales proves to be impractical, i.e., vending machines sales, upon permission from the Tax Commissioner, vendors may pay the 4½% sales and use tax on the wholesale cost of items sold. The ½% state tax increase authorized by this bill will be applicable to items sold through vending machine. Therefore, persons operating vending machines in the Northern Virginia Planning District, upon approval from the Tax Commissioner, will be required to pay tax on the wholesale cost of items at the rate of 5%.

Disposition of Revenues

The revenue generated by the tax imposed in this bill would be deposited into the Northern Virginia Transportation District Fund to fund transportation projects within the district.

Similar Legislation

House Bill 2776 would authorize the localities within the Northern Virginia Planning District to impose a special sales and use tax of 1%, if approved by voters within the locality at the general election on November 6, 2001.

Senate Bill 1368 would authorize the localities within the Northern Virginia Planning District to increase the state sales and use tax rate 1%, upon approval of a joint referendum in November, 2002, and the passage of legislation creating a regional transportation authority for Northern Virginia.

cc: Secretary of Finance

Date: 1/23/01/wbs

Document: S:\WorkInProgress\OTPwork\House Bills\HB2725F161